



REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Export-Import Bank's Financial Disclosure System For Employees And Its Procurement Practices

Standards of ethical conduct for Government officials are prescribed by Executive order of the President. In line with this, the Export-Import Bank established a financial disclosure system to monitor the financial interests of some employees. Although the system provides for full disclosure, the system could be improved.

GAO recommends followup action to monitor the effectiveness of the system and establishment of procedures for prompt collection of all required statements and for timely review and approval of statements submitted. GAO found that Eximbank's procurement practices were adequate to protect the interests of the Government.



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-185101

The Honorable John E. Moss
House of Representatives

Dear Mr. Moss:

In response to your request of October 9, 1975, we reviewed the disclosure system for financial interests and procurement practices of the Export-Import Bank of the United States (Eximbank), a wholly owned Government corporation.

We made our review at Eximbank's office in Washington, D.C., where we examined financial disclosure statements filed for fiscal year 1975 to determine whether persons required to file had done so, and financial interests of a selected sample of employees. We determined whether these employees had filed as required in previous years and reviewed their position descriptions. We also reviewed financial interests held in previous years for employees whose 1975 holdings appeared to conflict with their activities and the responsibilities of several employees not required to file financial disclosure statements to determine whether they should be filing statements. The confidentiality of the employees who filed statements was maintained at all times.

We did not review the financial disclosure statements of the five Presidentially appointed bank directors. Executive Order 11222 requires their statements to be filed directly with the Civil Service Commission. As part of other ongoing assignments, we are reviewing Civil Service Commission implementation of the Executive order, and the financial disclosure system for high ranking Federal officials, including the Eximbank directors, and will be reporting separately to the Congress on the results of those reviews.

Although Eximbank's regulations generally conform with Civil Service Commission financial disclosure guidelines, its system for reviewing the statements has not always prevented appearances of conflict of interest.

Our tests disclosed 29 instances in which 7 employees were involved in transactions which directly or indirectly benefited firms in which they held financial interests. Recent actions by Eximbank should strengthen the disclosure system; however, we believe Eximbank needs to monitor the effectiveness of the system by reviewing--on a test basis--the activities of employees who hold interests in firms with which Eximbank is directly or indirectly involved. The collection and review of financial disclosure statements also needs to be improved; 23 of 149 statements required to be filed in June 1975 were filed 6 to 7 months late, were inaccurately dated, or were not filed at all. In addition, Eximbank did not review the June 1975 statements until September 1975.

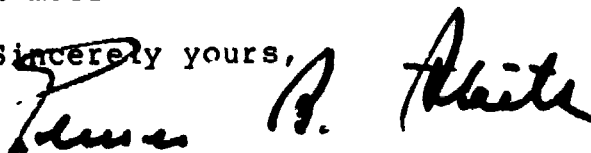
We examined procurement actions for fiscal years 1973-75 and discussed procurement with agency officials to determine the adequacy of procedures and practices. Procurement actions generally complied with informal agency requirements and with Federal Procurement Regulations.

Details of our review and our conclusions and recommendations for necessary corrective action are included in appendix I.

As requested by your staff, Eximbank was not given an opportunity to formally comment on this report; however, we discussed our findings with agency officials during the review and they agreed to act on the matters discussed in the report.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We will be in touch with your office in the near future to arrange for release of the report so that the requirements of section 236 can be set in motion.

Sincerely yours,



Comptroller General
of the United States

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EXIMBANK FINANCIAL DISCLOSURE SYSTEM FOR EMPLOYEES
AND ITS PROCUREMENT PRACTICES

BACKGROUND

Eximbank was created in 1934, and was made a wholly owned U.S. Government corporation by the Export-Import Bank Act of 1945 (12 U.S.C. 635 et seq. (1970), as amended). Its principal activities have been to aid in financing and to facilitate exports from the United States to foreign countries.

Eximbank makes direct loans to foreign buyers, usually in conjunction with loans made by others, to finance the export of U.S. goods and services sold on credit terms. Under its discount loan program, Eximbank makes loans to domestic commercial banks that hold export debt obligations. It also guarantees the repayment of export loans made by others and insures amounts owed by foreign buyers to U.S. exporters. In addition, Eximbank arranges for financial institutions abroad, called cooperative financing facilities, to extend loans at their own risk for purchases of U.S. exports. Eximbank, in turn, lends the institution half the funds and, for cases where the institution borrows the other half, may guarantee repayment to the other lender.

At June 30, 1975, Eximbank had \$9.4 billion in outstanding loans, \$7.0 billion in undisbursed loans, outstanding guarantees of \$5.3 billion, and insurance of \$3.5 billion. During that fiscal year it processed about 6,000 loan, guarantee, and insurance transactions.

Eximbank receives no appropriated funds but is authorized to borrow directly from the U.S. Treasury and to have outstanding at any one time up to \$6 billion of such borrowings. At June 30, 1975, Eximbank notes payable to the U.S. Treasury totaled \$207.1 million.

Eximbank's activities lead to continuous direct and indirect involvement with many private firms; therefore, it is imperative that its employees maintain the highest level of standards of ethical conduct in performing their duties.

FINANCIAL DISCLOSURE REQUIREMENTS
AND AGENCY PROHIBITIONS

Executive Order 11222, dated May 8, 1965, prescribed standards of ethical conduct for Government officers and employees and directed the Civil Service Commission (CSC) to

establish implementing regulations. In November 1965, CSC issued instructions requiring each agency to prepare employee conduct standards and to establish a review system for employee financial disclosure statements. Standards of conduct regulations established by each agency must be approved by CSC.

Eximbank originally published standards of conduct regulations in February 1966 and revised them in 1967. Eximbank's current regulations were approved by CSC on July 30, 1973, and became effective on August 9, 1973. These regulations include a financial disclosure system for employees and established an Ethics Committee consisting of the First Vice President as Chairman, the General Counsel, Deputy Counsel, and Vice President for Administration.

The Ethics Committee's responsibilities for financial disclosure include (1) assuring that no person is appointed whose direct or indirect financial interests conflict or appear to conflict substantially with that person's duties at Eximbank, (2) consulting with the Chairman of the Committee on review of financial interest statements, (3) consulting with officials on employee requests for exemptions from the requirement to disqualify themselves on matters involving companies in which they have an interest, and (4) reviewing requests for exemptions from the requirement to file a financial disclosure statement. The Committee also has related duties involving gifts and gratuities, outside employment, and response to inquiries on sensitive matters.

The Chairman of the Ethics Committee was designated as Counselor and the General Counsel as Deputy Counselor on Ethics. The Deputy Counselor is responsible for providing authoritative advice and guidance to employees on standards of conduct.

Statements of financial disclosure for positions requiring them must be filed within 30 days of appointment to the positions. Supplementary statements are required annually on June 30, regardless of whether changes have occurred since the last reporting. In addition, because of Eximbank's continuous dealings with the private sector, beginning in July 1975 all GS-11s and above must report any security transactions within 10 business days to the Deputy General Counsel who, in consultation with other Committee members, reviews them and informs the Counselor of any unresolved conflicts. This requirement was approved by the Civil Service Commission on June 11, 1975.

The Counselor reviews all financial disclosure statements in consultation with the members of the Ethics Committee as he deems appropriate. He is responsible for resolving conflicts or apparent conflicts of interest and, if he is unable to do so, for reporting the matter to the President of Eximbank. The President then takes appropriate remedial action to end the conflict or apparent conflict, including change of assigned duties, divestment by the employee of the conflicting interest, disqualification for a particular assignment, or disciplinary action.

Prohibitions affecting Eximbank employee financial holdings are included in the Export-Import Bank Act of 1945, as amended, and in Eximbank regulations. The Act as amended (12 U.S.C. 635a (e)) states:

"No director, officer, attorney, agent, or employee of the bank shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting his personal interests, or the interests of any corporation, partnership or association in which he is directly or indirectly personally interested."

Eximbank regulations (12 CFR 400.735) prohibit an employee from

- participating in any Bank matter in which, to his knowledge, he, his spouse, his minor child, his partner, or any organization in which he is employed or negotiating to be employed has a financial interest;
- having a direct or indirect financial interest that conflicts substantially, or appears to conflict substantially, with his duties or responsibilities at the Bank; or
- engaging, directly or indirectly, in financial transactions or furthering his personal interests, as a result of, or primarily relying upon, information obtained through his employment at Eximbank.

FINANCIAL INTERESTS OF SEVEN
EMPLOYEES APPEAR TO CONFLICT
WITH DUTIES PERFORMED

On June 30, 1975, 149 employees were required to file financial disclosure statements listing creditors, interests

in real property, and business entities in which they had interests. In accordance with CSC guidance, the amounts of the interest or indebtedness or the value of real property is not required to be listed.

We examined the statements of a sample of 63 employees, 28 of whom had holdings in 102 companies with which Eximbank is involved. The companies were primarily U.S. firms whose exports Eximbank facilitates. We reviewed 196 files of fiscal year 1975 transactions with firms reported on financial interest statements and made additional tests of 120 files of prior years' transactions with firms reported on statements for employees whose actions created the appearance of conflict of interest.

We found appearance of conflict of interest in 29 cases involving 7 employees. The cases involved 10 direct loans totaling \$39 million, 19 cooperative financing facility loans totaling \$5 million, and 10 guarantees related to the loans totaling \$4.6 million. Employee actions which created the appearance of conflict of interest include the following.

- An international economist made the economic analysis of the importing country and signed a memorandum to the Board of Directors recommending approval of a direct loan of \$15.7 million to a wholly owned subsidiary of a U.S. firm in which he had a financial interest. When we brought this matter to the attention of the General Counsel, he discussed it with the employee, who said it was an oversight which had occurred in 1974 and that he is aware of the need to disqualify himself on such cases.
- A Deputy Vice President concurred in the financial evaluation made of a borrower in connection with a loan request of \$1.1 million to finance export sales of a U.S. supplier in which the employee held an interest. This employee is now retired.
- A high-level official signed letters informing four foreign borrowers of the Board of Director's approval of direct loans and requesting acceptance of terms. Three of these loans, totaling \$10.2 million with \$2.1 million in a related guarantee, facilitated exports of U.S. suppliers in which the employee had interests. The fourth loan for \$7.3 million was made directly to a wholly owned subsidiary of a company owned 83 percent by the U.S. supplier in which the employee had an interest. The employee's interest in these cases consisted of holdings in an unsettled estate which the

employee expected to inherit. The Ethics Committee never questioned this matter and the estate has since been settled and the employee has disposed of the holdings.

--A Deputy Vice President signed eight export loan agreements which indirectly facilitated the financing of export sales of U.S. suppliers in which he had financial interests. These agreements provided loans to cooperative financing facilities for specific loans made in turn by the facilities to foreign buyers for purchases from a specified U.S. supplier. The loans totaled \$2.4 million, and four of the agreements provided related guarantees totaling \$968,000. In two of these cases, the U.S. supplier in which the employee had holdings owned 44 percent interest in the foreign buyer receiving the loan from the cooperative financing facility. The employee's holdings were questioned by the Ethics Committee as a result of a supervisor's inquiry in connection with a possible promotion. The employee disposed of the interest in these companies in late 1975.

--A Vice President signed as concurring in memos to the Board of Directors recommending approval of two loans which facilitated exports of a U.S. supplier in which the employee held a financial interest. These loans totaled \$2.3 million, with one related guarantee of \$1.1 million. This employee also signed two cooperative financing facility loan agreements totaling \$1 million which also indirectly facilitated exports of this supplier. The Ethics Committee had not questioned this employee's holdings. The employee has resigned from Eximbank for personal reasons not related to any financial interests.

--A loan officer signed memos to the loan committee recommending preliminary or final approval on four cooperative financing facility loans and one related guarantee totaling \$828,000. The loans facilitated exports of U.S. suppliers in which the employee had interests. This employee's holdings were questioned by the Ethics Committee as a result of a supervisor's inquiry in connection with a possible promotion. The employee disposed of these holdings in early 1976.

--A financial analyst signed a cooperative financing facility agreement for \$56,000 which indirectly facilitated exports of a U.S. supplier in which he had an interest.

NEED TO STRENGTHEN FINANCIAL DISCLOSURE SYSTEM

Eximbank regulations generally conform to CSC's financial disclosure guidelines and the formal system implementing the regulations calls for complete and prompt disclosure of all financial interests. However, in view of the results of our review, which disclosed several appearances of conflict of interest, we believe that Eximbank needs to improve the effectiveness of its financial disclosure system. Our thoughts in this regard are discussed in the following sections.

Followup on review of financial disclosure statements

Because of the numerous firms with which Eximbank deals or whose exports it does or may aid, Eximbank officials have not prohibited employees from holding financial interests in such firms. The Ethics Committee reviews financial interests reported according to its general knowledge of bank dealings with various firms and duties of the individual employees.

As a result of statement review in 1975, the Committee talked with several individuals who had holdings in firms with which Eximbank is directly or indirectly involved to emphasize the need for disqualification. These discussions were generally not documented. To try to avoid assignment of cases to employees for whom conflict of interest might arise, beginning in 1975 members of the Committee meet with supervisors to advise them on specific individuals. Eximbank's President has issued two memos within the last year to all employees reminding them of the need to disqualify themselves when assigned to cases involving firms in which they have an interest. All employees are required annually to read standard of conduct regulations.

Ethics Committee members stated that they do not police the system but rely on the employees to disqualify themselves from work on cases involving firms in which they have an interest. We were informed that the Committee's review of holdings based on general knowledge of companies with which Eximbank deals identifies most persons having such holdings. As noted above, our review indicated that this system of control has not always prevented appearances of conflict of interest in the past. We believe an effort is needed to monitor on a test basis the system's effectiveness and to detect real or apparent conflicts of interest.

In the instances where we found appearances of conflicts of interest, the General Counsel agreed that, except for the cooperative financing facilities cases, the employees should have disqualified themselves from the cases. ... stated that he did not believe the cooperative financing facilities cases present even the appearance of a conflict because the credit judgments in the financing facilities program are made by the Board of Directors or the Loan Committee when they approve a line of credit for the facilities. Thereafter, in the cases we noted, the staff performs ministerial acts to be satisfied that individual transactions meet the program's criteria and the employee is further removed from the decisionmaking process for cooperative financing facility loans than in the direct loan program.

We agree that there is less discretion on these individual transactions since Eximbank looks for repayment to the cooperative financing facility whose line of credit has previously been approved. However, requests for funds from the facility are reviewed and judgments made on whether the subloan to the foreign borrower meets program criteria, such as length and rate of loan, appropriateness of Eximbank support for the product, and experience with the borrower. Eximbank has concluded that to avoid any question, it will instruct employees to disqualify themselves from acting in any cooperative financing facility case in which they have any financial interest, such as stock ownership in the American supplier.

The General Counsel noted the usefulness of our tests and stated that, to monitor the financial disclosure system in the future, Eximbank will spot check individual's holdings against their case assignments to see if there is any possible conflict of interest.

Procedures for collecting financial disclosure statements

Eximbank regulations require the submission of financial disclosure statements from:

- Employees paid at the Executive Schedule except those required to submit their statements to CSC by Executive Order 11322.
- Employees at GS-13 and above whose duties require them to make decisions which have an economic impact on non-Federal enterprise or for whose positions Eximbank

has determined such statements must be filed to avoid possible conflicts of interest situations.

--Employees below GS-13, when justified in writing to CSC, whose duties meet the above criteria.

Eximbank officials told us that, in practice, prior to June 1976, all GS-13s and above and selected GS-11s and GS-12s were required to file financial disclosure statements. Beginning in June 1976, all GS-11s and GS-12s will be required to file statements. CSC approved this requirement on June 11, 1975. Employees below GS-11 level are not required to file statements due either to the nature of their work or the levels of review of their work.

On June 30, 1975, 149 employees were required to file statements. However, 10 employees filed from 184 to 226 days late; 11 employees did not file at all; and 2 statements filed as 1975 statements were dated June 1974, apparently a clerical error. Thus, 15 percent of those required to file statements on June 30 did not do so in a timely, accurate, and complete manner.

Despite regulations requiring filing within 30 days, persons hired or promoted into covered positions had not been required to file statements until yearend. Consequently, four of the five employees in our sample who entered on duty at Eximbank as GS-13s or above after June 30, 1973, had not filed within 30 days. Their statements were submitted as much as 279 days late and averaged 169 days late.

The lack of an effective procedure to insure timely submission of statements could result in employees holding conflicting interests without the knowledge of Eximbank officials. We were informed that missed and late annual statements were the result of oversights and that in the future this situation will be avoided by use of a checkoff list and timely followup action. Also, the personnel office will notify persons promoted to or entering on duty into covered positions of the requirement to file within 30 days and will provide information to the General Counsel's office for followup.

More timely review of disclosure statements

Eximbank's regulations do not specify when financial disclosure statements must be reviewed. CSC guidance suggests that all annual update reviews be completed by August 31 and questions resolved by September 30. Lack of timely review

could result in employees holding interests without the knowledge of Eximbank officials.

The review of statements submitted on time was not carried out promptly. Even though most statements required on June 30, 1975, were submitted by the end of July, we were informed that the reviews were not begun until September. An ethics memorandum, which resulted from the 1975 review and which reminded employees to disqualify themselves on cases in which they have interests, was not issued until November 7, 1975.

Statements of nine new employees, filed after August 1975 (principally in November and December), showed no evidence of review at the time of our examination in April 1976.

CSC guidance also suggests that approval of statements be shown affirmatively by initialing a symbol of approval and the date of approval. We found that 16 statements filed for 1975 had not been initialed by the reviewer and no statements evidenced date of review.

We were informed by the General Counsel that in the future, statements will be reviewed when submitted and that all statements will be initialed by the reviewer. The 1976 annual review was completed in August.

PROCUREMENT PRACTICES

Enabling legislation (12 U.S.C. 635(a)(1)(2)) provides that the Export-Import Bank, as a corporation, is authorized and empowered:

"to do a general banking business;

"to perform any act * * * authorized in participation with any other person, including any individual, partnership, corporation, or association;

"to publish or arrange for the publication of any documents, reports, contracts, or other material necessary * * *."

The President of the Bank is required to transmit annually to the Congress a budget for program activities and for administrative expenses.

Because of its mission, Eximbank's procurement activities are limited to items of administrative support and services. During fiscal years 1973-75, these items totaled \$1,532,495,

\$1,488,701, and \$1,762,586, respectively, and included rental of office space and equipment, printing and reproduction, office supplies, purchase of fixed assets, and personal services.

The Bank has no formalized procurement policies but uses the Federal Procurement Regulations as guidance in procurement actions. Its procurement procedures call for each division or office to designate a person responsible for requisitioning needed supplies. Requisitions for supplies of \$50 or less are approved by the Chief of the Office Services Section. All other requisitions require the approval of the Vice President for Administration or his assistant. All procurements, to the extent possible, are made from the General Services Administration schedules. Informal comparative shopping is used for items not on these schedules and purchases must be approved by the assistant to the Vice President for Administration.

We reviewed selected procurement actions for fiscal years 1973-75 and found that they generally complied with required procedures.

CONCLUSIONS

Eximbank's primary function is to aid in financing and facilitating exports of U.S. goods and services. This function requires extensive contact with private industry. Therefore, Eximbank must insure through its financial disclosure system that its employees maintain the highest ethical standards. Eximbank's system of financial disclosure calls for the complete and prompt disclosure of all financial interests by those employees who could have conflicts of interest; however, certain improvements should be made to enhance the effectiveness of the system.

We found that the current system--Ethics Committee review of financial disclosure statements based on general knowledge of companies that Eximbank deals with and of the employee's duties, and reliance on employees to disqualify themselves from cases involving companies in which they have interests--has not prevented appearances of conflict of interest. Our tests identified seven persons who had been connected with cases involving companies in which they held financial interests. Eximbank, by not monitoring, on a test basis, employee involvement to determine whether employees are disqualifying themselves in cases when required, has not provided a mechanism by which to evaluate whether the system is preventing real or apparent conflicts of interest.

Eximbank officials have agreed to spot check employee holdings against case assignments in the future.

Required financial disclosure statements could be collected in a more timely and complete manner and should be reviewed more promptly. In 1975, 23, or 15, percent of 149 statements required to be filed on June 30 were filed 6 to 7 months late, were inaccurately dated, or were not filed at all. In addition, Eximbank officials did not review the June 30, 1975, financial disclosure statements until September. Eximbank's new requirement that all transactions be reported to the Deputy General Counsel within 10 days, if proper review procedures are followed, should reduce the possibility that employees could hold conflicting interests for extended periods. However, this requirement should not be a substitute for prompt review of the financial disclosure statements themselves at June 30 or when a person is appointed to a position requiring filing. Eximbank officials have planned actions to provide complete collection and timely review in the future.

For Eximbank procurement, we believe that use of Federal Procurement Regulations provides sufficient guidance to adequately protect Government interests. We found these guidelines generally followed in Eximbank procurement actions.

RECOMMENDATIONS

To improve the effectiveness of the Eximbank financial disclosure system, we recommend that the President of Eximbank act to:

- Strengthen review procedures by (1) identifying all employees who hold potentially conflicting interests, (2) continuing to periodically reemphasize the need for disqualification on cases involving those companies, and (3) monitoring, on a test basis, the activities of employees who hold potentially conflicting interests.
- Establish procedures for promptly collecting all required statements at June 30 and at entrance on duty into a position for which a statement is required.
- Provide for timely review and approval of financial disclosure statements submitted, evidenced by a reviewer's initials and the date of review.